



Weekly Market Commentary



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Investors' New Year's Resolution: Buy U.S. Stocks

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Highlights

Until mid-December 2010, investors had been withdrawing money from U.S. stock mutual funds while strongly favoring bonds with their investment dollars.

While one week of inflows does not necessarily reflect a new resolution by investors to buy stocks, the net selling of stocks and buying of bonds has been slowing over many weeks suggesting a gradual change in behavior that may be sustained in 2011.

About \$90 billion has been pulled from U.S. stock mutual funds since the “flash crash” on the afternoon of May 6, 2010, according to data from the Investment Company Institute. On that day, the Dow Jones Industrial Average experienced the biggest intraday point decline, 998.5 points, in its 114-year history. During every week since the flash crash investors have been withdrawing more money from U.S. stock mutual funds than they have been adding while strongly favoring bonds with their investment dollars. This net selling took place despite strong gains over the past six months in the major stock market indexes. Investors' recent period of selling U.S. stock mutual funds while the stock market posted more than a 10% gain is unprecedented, and follows two years of net selling in 2008 and 2009.

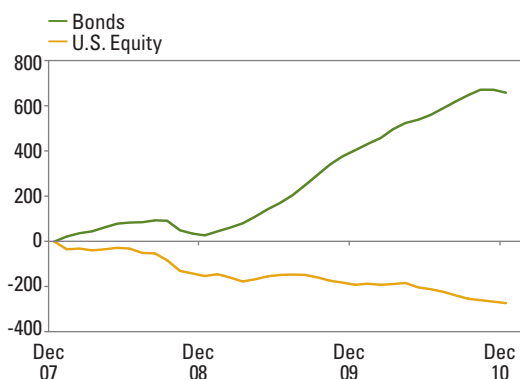
The disconnect between the U.S. stock market gains and investor behavior has finally started to reconnect as it was reported last week that investors finally added a net \$335 million into U.S. stock funds during the week ending December 21. While one week of inflows does not necessarily reflect a new resolution by investors to buy stocks, the net selling has been slowing over many weeks suggesting a gradual change in behavior that may be sustained in 2011.

The buying of U.S. stock mutual funds was not funded with cash. Money market funds saw a rise of \$22 billion in assets during the week. Instead, investors sold bond mutual funds to fund their purchases extending the recent trend in bond fund selling. More than \$20 billion has been pulled out of bond funds since mid-November 2010, with the last two weeks' outflows marking the biggest in more than two years.

Concern over the integrity of the U.S. stock market after the flash crash was likely a contributing factor to investors' avoiding U.S. stocks for so long even though stocks rose in value. However, several other factors likely contributed as well, including government policy uncertainty surrounding taxes, concern over the durability of the economic recovery, and market volatility. In December, many of these factors turned more positive for investors:

- In mid-December, the tax-cut extension was passed and signed into law.
- The U.S. Department of Labor reported last week that the number of people applying for unemployment benefits fell to its lowest point in nearly two and a half years.
- Stock market daily volatility eased with the gap between the high and low of the day averaging 0.6% in December compared to 1.1% to 1.9% during the prior six months.

1 Disconnect Beginning to Reconnect? *Cumulative Net Money Flows of U.S. Equity and Bond Mutual Funds in Billions of Dollars Since December 2007*



Source: LPL Financial, Haver Analytics. Data as of 12/21/10



While these factors are helping investors begin to become more confident about stocks, relative performance may be an even more potent driver of behavior for investors. In December, the U.S. bond market, measured by the Barclays Aggregate Bond Index, fell 1.4% while U.S. stocks measured by the S&P 500 Index, provided a positive total return of 6.7%.

Losing money in bonds, where investors considered their money relatively safer than in stocks, finally prompted action by investors as stocks continued to climb in December. Fears of rising interest rates and further losses are likely prompting investors to shun bonds and reconsider stocks as they lengthen their time horizon and look out to 2011. Rather than view the emerging shift in sentiment by investors from a contrarian point of view that stocks are due for a fall now that individual investors are buying them once again, we see the end of the buyers strike as a modest positive for stocks in 2011. After all, in 2004, when individual investors began to buy stocks again after the bear market of the early 2000s the market continued to rise in the coming years. As presented in our *Outlook 2011*, we expect stocks to outperform bonds in 2011 and are encouraged by the return of the individual investor to the stock market with plenty of buying power and the highest savings rate in many years.

IMPORTANT DISCLOSURES

Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. You can obtain a prospectus from your financial representative. Read carefully before investing.

An investment in a money fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fed seeks to preserve the value of your investments at \$1.00 per share, it is possible to lose money investing in the Fund.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

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The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. It is an unmanaged index which cannot be invested into directly. Past performance is no guarantee of future results.

This Barclays Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. It is an unmanaged index which cannot be invested into directly. Past performance is no guarantee of future results.

Investing in mutual funds involve risk, including possible loss of principal. Investments in specialized industry sectors have additional risks, which are outlined in the prospectus.



The Investment Company Institute (ICI) is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). Members of ICI manage total assets of \$11.18 trillion and serve nearly 90 million shareholders.

Dow Jones Industrial Average is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials. The 30 stocks are chosen by the editors of the Wall Street Journal. The Dow is computed using a price-weighted indexing system, rather than the more common market cap-weighted indexing system.

All fund flow data is according to the Investment Company Institute as of 12/31/10.

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